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TAGS: [ENRG](#) [ECPO](#) [KNNP](#) [PREL](#) [EG](#)  
SUBJECT: SCENESETTER FOR SECRETARY OF ENERGY BODMAN VISIT  
TO EGYPT

REF: A. CAIRO 3464 (NOTAL)  
[1](#)B. CAIRO 3406

Classified By: Ambassador Francis J. Ricciardone  
Reasons 1.4 (b) and (d).

[1](#)1. (C) Egypt is addressing the mushrooming energy demands of its growing economy and population, but tackling the problem will require aggressive action on energy subsidies, increased conservation, and maximization of finite hydrocarbon reserves. In addition to its plans for civilian nuclear power development, the GOE in recent months has increased efforts to both articulate and implement its subsidy-reduction and renewable resource development strategies. Your visit provides an opportunity to enhance cooperation on civilian nuclear power, encourage Egypt's positive steps toward a more market-oriented electricity sector, and promote energy-related trade between our two countries. President Bush briefly noted to President Mubarak on January 17 his support for civilian nuclear power production.

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Meeting Future Energy Needs  
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[1](#)2. (SBU) With electricity consumption growing at over 7 percent per year and limited conservation measures in place, Egypt faces a tough challenge in meeting demand. Some local experts are forecasting energy demand to grow to 120,000 megawatts by 2050, up from around 22,000 megawatts at present. Egypt is in the midst of national debate over how best to manage the sector to promote economic growth in a fiscally-sustainable manner. Mindful of the potential political backlash, Egypt is nonetheless chipping away at its financially-crippling energy subsidy entitlements both at the industrial and household level. Energy subsidies account for roughly 70 percent of Egypt's estimated EGP 64 billion (USD 11.6 billion) subsidy bill for 2007/8. In November, Minister of Electricity Hassan Younes raised electricity prices for both companies and households by an average of 7 and 11 percent respectively, and Minister of Trade and Industry Rachid Mohamed Rachid announced in early January 2008 that Egypt would fully liberalize energy prices by 2009 through a gradual lifting of subsidies.

[1](#)3. (SBU) In its subsidy cuts, the GOE is particularly targeting heavy industry, which benefits from 70 percent of energy subsidies but only employs 10 percent of the nation's workforce. The GOE raised natural gas and electricity prices to Egypt's largest industrial consumers (mainly steel and cement producers) in September 2007 with a goal of market pricing by 2010. Exempting bakeries and electricity

generation, Prime Minister Ahmed Nazif raised the price of heavy fuel oil by 100 percent in January 2008. The move will markedly increase costs to the building materials industry, which has long benefited from well-below-market input costs. As a follow-up to gasoline and diesel price increases in September 2006, many here expect another round of increases this spring.

¶4. (U) In August 2007, the GOE announced plans for a new unified electricity law that would provide for private sector production and distribution. As of December 2007, the GOE has granted licenses to Egyptian companies to produce off-grid power via generators for, among others, as oil services company, an industrial complex, and the new campus of the American University in Cairo. Egypt has agreed to expand its power linkages with Gaza and is embarking on a USD 33.5 million project funded by the Islamic Development Bank to increase transmission and infrastructure to the territory. Egypt had been providing only emergency power, but Younes announced in December 2007 that capacity at stations feeding electricity to Gaza has increased to 87,000 kilowatts.

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Civilian Nuclear Power  
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¶5. (C) In your meeting with Minister Younes, you will be able to reinforce our joint desire to foster economic development through safe, and proliferation-resistant, nuclear energy (reftels). Younes and the GOE are positively disposed toward U.S. expertise and equipment, but will question whether we will make stepped-up nuclear cooperation with Egypt dependent upon Egypt's signing of the Additional Protocol (AP). The Egyptians have made their signing of the AP contingent on Israel joining the NPT. The meeting is a good chance to

examine the growing international support for GNEP and its principles. To us, the senior energy and nuclear apparatchiks betray no interest in acquiring the fuel cycle. Nonetheless, at least some of the nuclear technical experts likely quietly harbor such ambitions as a matter of professional and national pride.

¶6. (C) Egypt is moving forward with plans to develop a nuclear power program and is working closely with the IAEA in developing legislation to formally organize and govern the sector (ref b). The GOE has shared its draft nuclear energy bill with the IAEA and expects to put the bill before the Egyptian parliament in March 2008. Younes intends to begin the process of selecting an advisor for the construction of the first nuclear plant this January, and hopes to have a contract signed by the end of 2008. He told the press this week that El Dabaa, on the Mediterranean coast, will be the site for the first reactor, but this remains open to question. Seismology tests and other site improvements are underway to ensure the suitability of the location. Chairman of the Egyptian Atomic Energy Authority Dr. Aly Islam and Chairman of the Egyptian Nuclear Power Plants Authority Dr. Yassin Ibrahim, both of whom will likely join in the Younes meeting, participated in the DOE-sponsored January 14 - 16 nuclear power development seminar at Lawrence Livermore.

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Petroleum/Gas  
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¶7. (SBU) The debate within Egypt continues about whether to utilize finite hydrocarbon resources for export or domestic consumption. FDI in the petroleum sector increased to USD 3.1 billion last year, up from USD 1.8 billion. Chinese investment is small but growing. In December 2007, the Egyptians formed a joint venture with the Chinese to manufacture well pipes, and Sinopec has been actively seeking other investment opportunities in the Egyptian sector. Annual oil production has decreased year-on-year since 1996, with current production at 678,000 bpd. Proven reserves as of 2006 are 3.7 billion barrels. Successful use of new exploration and recovery technologies in the Western Desert

has brightened oil's short-term prospects somewhat, and the GOE now expects the Western Desert to add 40,000 bpd to the national output. The Ministry of Petroleum has been keen to publicize the September 2007 discovery of commercial volumes of oil in Upper Egypt, the first of its kind in the area, although industry contacts downplay the discovery. Egypt is also looking to cash in on a growing energy transit market, focused on increasing its share in the transport of Gulf petroleum to the U.S. and Europe. Expansion work on the SUMED pipeline located alongside the Suez Canal is underway with the aim of increasing storage capacity.

18. (SBU) Egypt is pinning its near to medium term energy hopes on expanding natural gas production, both for export earnings (through LNG and the Arab pipeline) and for domestic energy provision. Gas production more than doubled from 2002-2006, reaching 6.6 bcf. The contract structure in the sector is changing as well. Minister Fahmy decreed in November 2007 that Egypt would now prefer shorter-term export agreements (4 - 5 years). Egypt announced in September 2007 that it would increase its gas exports to Jordan through the Arab pipeline by 550 million cubic meters per year. On January 28, the World Bank is expected to approve a USD 75 million Natural Gas Connection Project for Egypt. The project supports the switch from LPG canisters to natural gas connections in the greater Cairo area, thereby connecting 300,000 households to the grid. Minister Fahmy has promised that natural gas will reach all Egyptian governorates by 2009.

19. (U) Egypt also appears set to begin exports of natural gas to Israel via pipeline in early 2008, a development that has elicited some protest in parliament from opposition MPs. In July 2005, Egypt and Israel signed a long-awaited deal for Egypt, through the Eastern Mediterranean Gas Co. (EMG), to export 25 billion bcf of natural gas to Israel over a 15-year period. A pipeline is under construction from El Arish, Egypt to Ashkelon, Israel to carry the gas. EMG has the exclusive rights to export Egyptian gas to Israel. Desiring to diversify its gas supply beyond Egypt, Israel has been lobbying hard to receive the production of British Gas' Gaza Marine concession, a Palestinian asset, via pipeline to Ashkelon. BG earlier had entertained plans to bring the gas ashore at El Arish due to Israeli intransigence on pricing, however under apparent political pressure from Israel and HMG, BG is moving toward finalizing a sales agreement with Israel. According to BG, the agreement acknowledges the

field as a Palestinian asset and signals Israel's willingness to pay the Palestinians for it through some "transparent mechanism," as yet to be determined, to ensure revenues are used for "legitimate government purposes." The sale of the gas, which could be brought ashore as early as 2009-10, could be worth between USD 60 and 100 million per year for the Palestinians for 15 years or more.

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Renewables  
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110. (SBU) Ramping-up of renewable energy production is a key component of Egypt's long-term energy strategy, and wind energy is at the forefront. By 2020, Egypt wants at least 20 percent of its electricity powered from renewable resources. Currently hydropower and wind energy provide 13 percent and 1.3 percent respectively. In December 2007 Egypt inked a deal with the World Bank for a Euro 49.8 million grant to help finance the development of the solar-thermal power station at Kuraymat, located 65 miles south of Cairo, which the GOE tells us should be finished by 2010. But with limited hydropower development options and the high cost of solar power, the GOE is pursuing wind energy with vigor. The Egyptian Renewable Energy Authority (EREA) estimates that wind farms in the Gulf of Suez, which some international experts consider as having optimum wind-generating characteristics, could potentially produce 20,000 MW at full power. The EREA tells us that wind power is currently producing 520 MW, but is expected to increase to 7,000 MW by 2012. The Germans and Danes are among the leading the

international players exploring the Egyptian wind energy market. USAID had performed some work with the GOE in the 1980's related to wind energy as part of a broader energy conservation and environment project, although no recent wind energy projects have received U.S. support.

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Past U.S. Support  
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¶11. (SBU) The U.S. has played a major role in the development of Egypt's conventional energy infrastructure. Between 1975 and 2006, USAID supported nearly every facet of Egypt's power sector development, investing USD 1.8 billion in generation, transmission and distribution systems, energy policy, industry structure and governance, and financial and operational stability of productive assets. USAID contributions were by far the largest of any single donor, accounting for 22 percent of total foreign assistance in power sector development. Minister Younes in particular is likely to emphasize his appreciation for the critical role this assistance has played in Egypt's development. He is also likely to express his hope for future USAID participation in the sector, which USAID believes is more appropriately funded through the private sector under current economic conditions.  
Ricciardone